
FINANCIAL PERFORMANCE ANALYSIS OF REGIONAL GOVERNMENTS: A STUDY OF SOUTH SUMATRA PROVINCE IN 2019–2023

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Abstract

This study aims to analyze the financial performance of regional governments in South Sumatra Province from 2019 to 2023. The research uses the ratio analysis technique based on the Regional Revenue and Expenditure Budget (APBD), focusing on five key indicators: regional financial independence, effectiveness, efficiency, harmony, and growth. This quantitative descriptive study collects secondary data from the official reports published by the Audit Board of Indonesia (BPK) and the Ministry of Finance. The results show that the level of regional financial independence in South Sumatra is still low and dependent on central government transfers. The effectiveness and efficiency ratios vary among districts/cities but tend to improve over the years. The harmony ratio indicates that the allocation to operational expenditure remains dominant, while capital expenditure is still relatively limited. Meanwhile, the growth ratio shows positive but inconsistent trends across regions. These findings suggest that regional governments should strengthen their revenue-generating capacity, optimize budget allocation, and prioritize capital investment to enhance regional financial performance and autonomy.

Keywords: Regional Financial Performance, Financial Independence, Budget Effectiveness, Budget Efficiency, South Sumatra

INTRODUCTION

The financial performance of regional governments plays a vital role in ensuring effective governance and sustainable development. With the implementation of fiscal decentralization, each regional government in Indonesia is expected to manage its own budget with autonomy and accountability to meet the needs of local communities (Halim, 2021). Financial performance reflects how well a region can manage its resources through budgeting, allocation, and spending to achieve development goals.

In evaluating financial performance, several indicators are widely used, including regional financial independence, effectiveness, efficiency, harmony, and growth. These ratios provide insights into how capable a local government is in generating its own revenue, utilizing its budget effectively, maintaining expenditure balance, and fostering financial sustainability (Mardiasmo, 2020).

South Sumatra Province, which comprises 17 districts and cities, represents a diverse economic and administrative landscape. Over the past years, various efforts have been made by the regional governments to improve financial independence and reduce dependency on central government transfers. However, disparities in financial capacity and budget execution remain an issue. According to the Audit Board of Indonesia (BPK), many regions still rely heavily on balancing funds, and capital expenditure is often overshadowed by operational spending (BPK RI, 2023).

This study aims to provide a comprehensive analysis of the financial performance of regional governments in South Sumatra from 2019 to 2023. By applying ratio analysis to the APBD data, the research seeks to assess the degree of financial independence and efficiency among regions, as well as identify trends and areas for improvement. The findings are expected to contribute to better financial planning and policy formulation at the regional level.

The significance of this study lies in its contribution to regional financial governance literature and its potential to offer practical recommendations for local governments. Through a critical evaluation of key financial indicators, this research aims to promote transparency, efficiency, and accountability in managing public funds in the era of fiscal autonomy (Putra & Haryanto, 2019).

REVIEW OF LITERATURE

Regional financial performance refers to the ability of a local government to manage its revenues and expenditures effectively and responsibly to support development goals. It is an essential aspect of public sector accountability, particularly under a decentralized fiscal system where each regional government has authority over its own budgeting and spending processes (Mahmudi, 2019).

Several indicators are commonly used to assess financial performance in the public sector. First, the financial independence ratio measures the extent to which a region can finance its expenditures using its own revenue sources. A higher ratio indicates lower dependence on central government transfers and greater fiscal autonomy (Halim, 2021). Second, the effectiveness ratio evaluates how well local governments realize their revenue targets compared to the budgeted figures. High effectiveness suggests accurate forecasting and robust revenue collection (Mardiasmo, 2020).

Third, the efficiency ratio assesses the relationship between the costs incurred and the revenues earned, helping to determine the economic use of resources. Fourth, the harmony ratio analyzes the composition of regional spending, typically focusing on the balance between operating and capital expenditures. Ideally, a larger portion of the budget should be allocated to capital spending to support long-term development (Sari & Prasetyo, 2021). Lastly, the growth ratio captures year-on-year changes in revenue and expenditure levels, reflecting a region's fiscal health and economic progress (Simbolon et al., 2020). Studies by Nugroho and Astuti (2022) and Wibowo (2021) emphasize that financial performance varies significantly across regions, influenced by factors such as economic structure, governance capacity, and administrative commitment. These studies also point to the strategic role of ratio analysis in identifying inefficiencies and areas for budgetary improvement.

In conclusion, ratio analysis remains a reliable tool in evaluating regional financial performance and is widely recommended in public financial management literature. It not only highlights a region's fiscal capacity but also supports evidence-based policymaking aimed at achieving sustainable development and public accountability.

RESEARCH METHOD

This study adopts a descriptive quantitative research approach to assess the financial performance of regional governments in South Sumatra Province during the period 2019 to 2023. The research focuses on measuring financial performance using ratio analysis, which includes five key indicators: financial independence, effectiveness, efficiency, harmony, and growth.

The data used in this study are secondary data sourced from official publications by the Audit Board of the Republic of Indonesia (BPK RI) and the Ministry of Finance. These data include Regional Revenue and Expenditure Budget (APBD) realization reports of 17 districts and cities within South Sumatra Province. The selection of data was based on availability and completeness during the five-year observation period.

The type of data collected is time-series and cross-sectional in nature, allowing for comparative analysis across both regions and years. The data collection technique involved documentation, where researchers obtained reports and statistics from the official websites of government institutions.

Data analysis was conducted using ratio analysis techniques commonly applied in public sector financial evaluations (Mahmudi, 2019). Each of the five ratios was calculated for every district and city per year, then interpreted according to established benchmarks in public finance. The results were then described, categorized, and compared to draw conclusions about the regional financial performance trends and challenges.

This methodological approach is expected to provide objective and reliable insights into the strengths and weaknesses of regional financial governance, offering valuable input for policymakers and stakeholders in improving fiscal management and public service delivery.

RESULTS AND DISCUSSION

The financial performance of regional governments in South Sumatra was assessed using five main indicators: financial independence, effectiveness, efficiency, harmony, and growth. The analysis was conducted across 17 districts/cities for the years 2019 to 2023.

Table 1.
Average Financial Performance Ratios of South Sumatra (2019–2023)

Indicator	2019	2020	2021	2022	2023
Financial Independence (%)	14.50	13.78	15.20	16.45	17.31
Effectiveness (%)	87.23	85.94	88.01	90.55	92.31
Efficiency (%)	95.02	93.54	91.80	94.32	96.70
Harmony - Operational (%)	76.43	77.20	75.85	73.60	71.50
Harmony - Capital (%)	19.34	18.90	20.22	21.60	22.70
Growth (%)	3.10	1.25	4.85	5.90	6.21

Source: Processed from BPK RI and Ministry of Finance (2024)

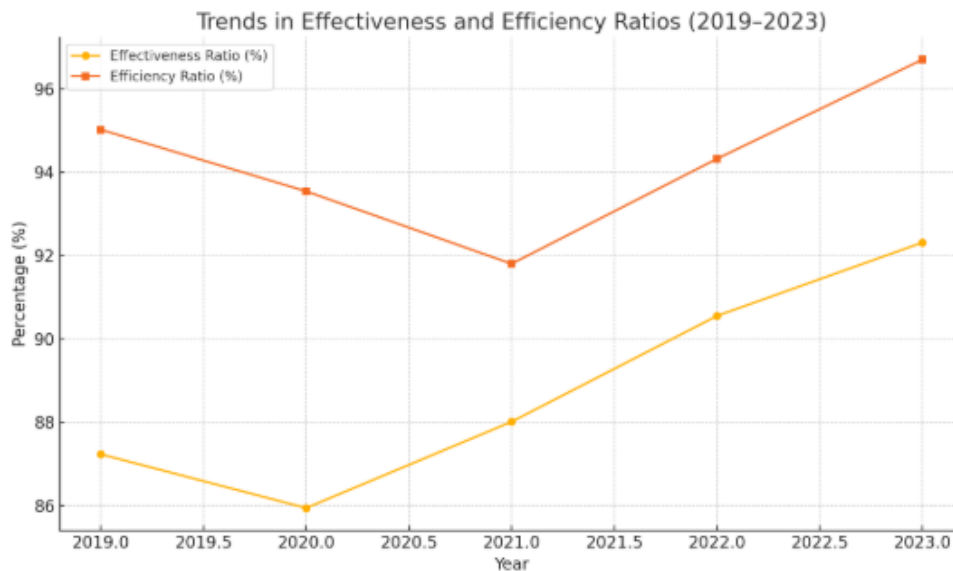


Figure 1.
Trends in Effectiveness and Efficiency Ratios (2019–2023)

This figure illustrates the upward trend in both effectiveness and efficiency ratios from 2019 to 2023. The effectiveness ratio increased from 87.23% to 92.31%, while the efficiency ratio improved from 95.02% to 96.70%.

The financial independence ratio remains relatively low throughout the period, averaging below 20%, which reflects a heavy dependence on central government transfers. This finding aligns with prior research highlighting the limited fiscal autonomy in many Indonesian regions (Halim, 2021).

Effectiveness ratios consistently improved, indicating better budget realization relative to targets. Efficiency ratios also remained high, suggesting good performance in managing resources and executing planned expenditures (Mardiasmo, 2020).

The harmony ratio reveals that operational expenditure continues to dominate the budget allocation, though there is a gradual increase in capital expenditure. This signals progress in long-term investment planning but still reflects a conservative fiscal structure focused on routine spending (Sari & Prasetyo, 2021).

Growth ratios showed positive but fluctuating values, with a notable recovery in 2022 and 2023. This suggests that local governments are beginning to regain fiscal momentum post-pandemic, albeit at different rates across regions (Simbolon et al., 2020).

The consistent increase in effectiveness also indicates that the planning and budgeting process at the regional level has become more realistic and aligned with revenue capacity. This supports the notion that improving the quality of fiscal planning can positively influence implementation outcomes (Putra & Haryanto, 2019). It also highlights the importance of adaptive fiscal strategies that respond to both economic shocks and policy changes.

In terms of efficiency, the steady improvement shows that regions are learning to optimize expenditure, likely as a result of increasing transparency and internal performance evaluations. However, disparities may still exist between urban and rural areas in terms of administrative capacity and infrastructure readiness, which could affect the sustainability of these trends (Nugroho & Astuti, 2022).

Another point of interest lies in the composition of spending. The relatively low capital expenditure despite increasing effectiveness and efficiency suggests that while funds are being well-executed, they are still primarily directed toward short-term operational needs rather than long-term development goals. This imbalance has been cited in earlier studies as a structural issue in regional financial management, particularly in regions outside Java (Wibowo, 2021).

Therefore, a shift in policy focus is needed, from merely achieving budget absorption targets to prioritizing the quality and development impact of spending. Encouraging capital investments—especially in infrastructure, education, and health—can serve as a catalyst for broader economic growth and improve the financial self-reliance of regions in the long run.

CONCLUSION

This study concludes that the financial performance of regional governments in South Sumatra Province from 2019 to 2023 shows varying progress across key indicators. The effectiveness and efficiency of budget management generally improved, suggesting better fiscal execution and alignment with planning. However, financial independence remained consistently low, highlighting persistent dependence on central government transfers. The harmony ratio reveals that operational expenditures continue to dominate over capital investments, while growth in revenue and expenditure shows positive yet uneven trends.

These findings imply that although regional governments are improving in certain financial aspects, structural challenges remain—particularly regarding fiscal autonomy and investment prioritization. For improved long-term performance, regions should focus on enhancing local revenue sources, increasing the proportion of capital expenditure, and strengthening planning and governance systems. Future research is encouraged to include additional variables such as governance quality, regional economic conditions, or the impact of fiscal policy reforms to deepen the understanding of financial dynamics at the subnational level.

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